

*Sal. Oppenheim*

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**Initiative Immobilienaktie 2007:**

**“Deutsche Immobilienaktien – Welcome to Reality”**

Kai Malte Klose, CIIA  
Tel.: +49-69-7134 5235  
kai.klose@oppenheim.de

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## Agenda

1. Change in the sentiment for real estate stocks
2. Sector and capital markets trends for real estate stocks
3. Investors' questions and preferences

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## 2006: “The only way is up” for German property stocks

### Attention to the sector increased

*“REITs boomen weltweit”*

FTD, 22.06.2006

*“Immobilienaktien im Aufwind”*

Die Welt, 05.10.2006

*“Gagfah legt Traumstart hin”*

FTD, 18.10.2006

*“REITs-Entwurf später im Kabinett”*

FAZ, 18.10.2006

*“Immobilien-Investments auf Rekordkurs”*

Die Welt, 03.11.2006

*“G-REITS - ein evolutionärer Prozess”*

Börsen-Zeitung, 28.12.2006

» Promising outlook: “Attractive fundamentals lead to positive outlook for 2007”

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## 2007: The first year of underperformance...

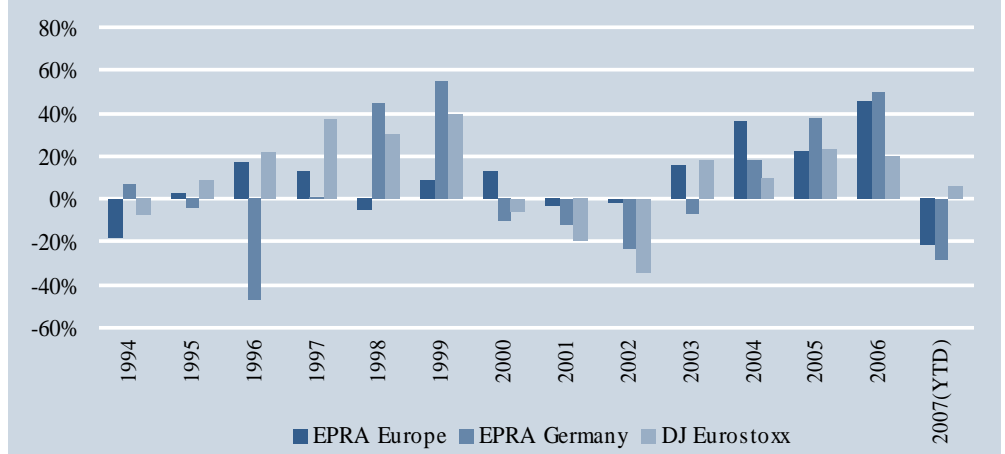
### Listed real estate sector with disappointing performance YTD (in%)

Asset class (€)	Sep-07	YTD	Rolling 5-years return	Average annual return
Global real estate	1.6	-3.9	136.2	18.8
Global equities	1	6	82.8	12.8
Global bonds	0.1	2.3	18.2	3.4
Europe real estate	-5.3	-19.8	174.2	22.4
North American real estate	0.3	-9.6	93.1	14.1
Asia real estate	6.7	14.3	187.5	23.5

Source: EPRA

- Over a five-year period, global real estate is an attractive asset class
- Performance driven by investors' demand and also by the introduction of REITS as benchmark for listed real estate
- Specific regions increasingly independent

### German real estate stocks hit hard YTD



Source: Datastream

- EPRA Europe (ex UK): -22%, EPRA Germany: -28%, EuroStoxx: 6%
- Nine German stocks currently in the EPRA universe with total free float market cap of only €6.5bn
- Only 1.1% listed real estate vs. total market cap in Germany, European average comes out at 2.4%

» Time for stock picking: "Tough times for German real estate but a closer look pays off"

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...and the outlook is uncertain

„Don't look down!!“



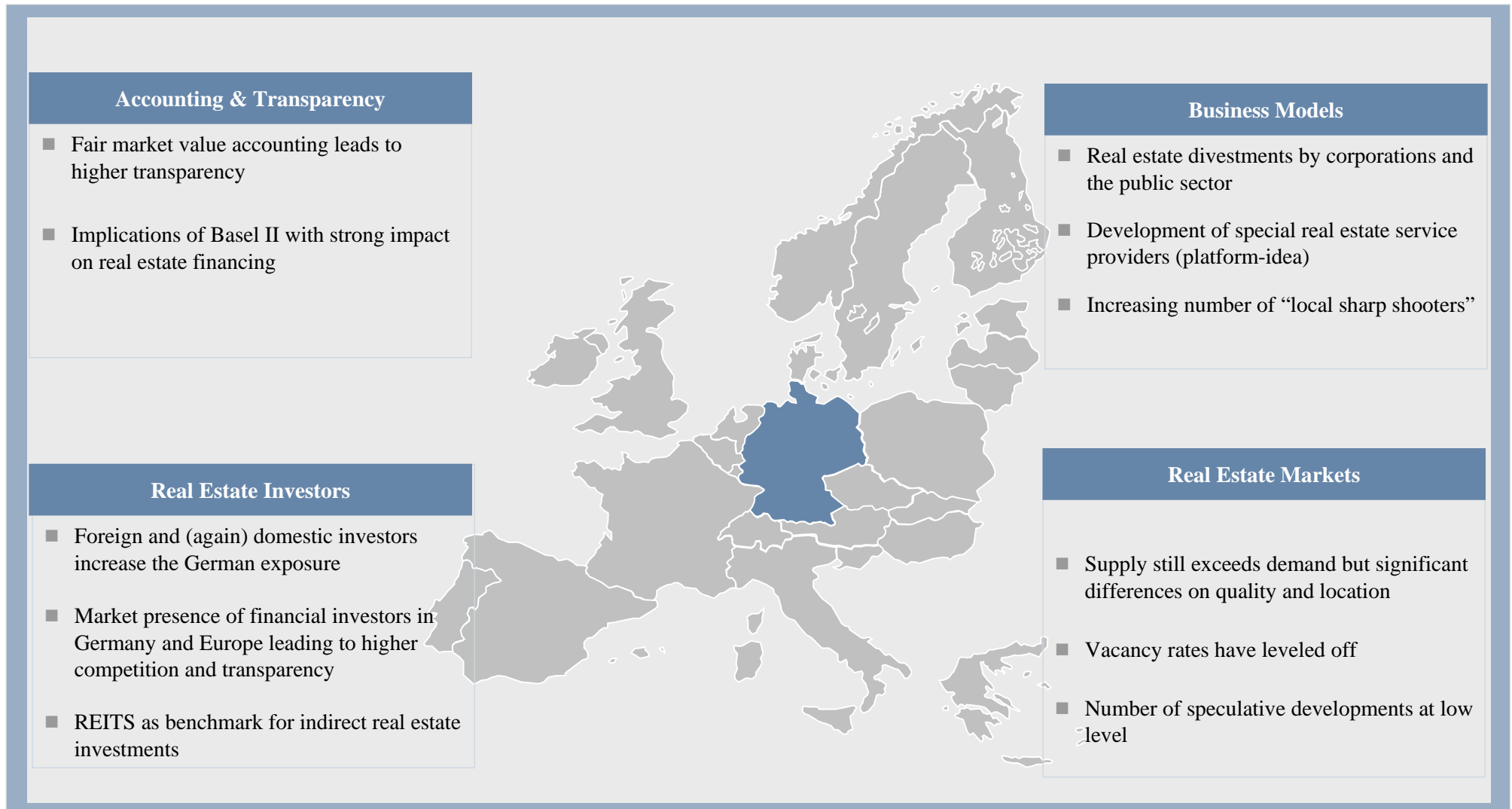
» “Waiting for 2008”

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## Underlying trends for German real estate markets still sound



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## Current key drivers for German real estate stocks

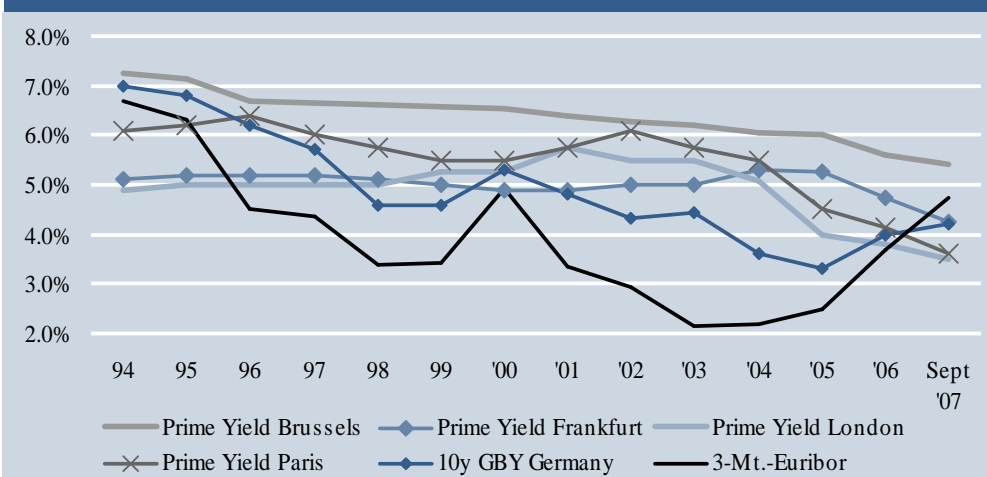
- **Negative factors are overwhelming currently...**
  - US-subprime crisis stronger than expected initially, similar situation in Spain
  - Negative impact on GDP-development visible in deteriorating consumer confidence
  - Turbulences on equity / securitization markets while the real estate sector has been a frequent player in this field
  - Opportunistic investors with a high leverage entered the markets and caused a significant yield compression
  - Markets had expected more from the German REIT-law, high restrictions and exclusion of residential real estate
  
- **...but fundamentals esp. for German real estate are more attractive than supposed**
  - Financing for home ownership very restrictive and based on value of property – totally different to US and Spain
  - Forecasts for GDP-growth for Germany have been reduced but economy in total seems to be robust
  - Financing of real estate companies either on portfolio level with max. 70-80% LTV or on corporate level with < 5% interest rates
  - Letting markets continue the positive trend (incl. residential markets) and new supply remains low (except retail markets)
  - Yield compression also on German investment markets but still some room left
  - REIT-law for German purpose acceptable esp. for industrial companies and large real estate holders
  
- **Demand for real estate investments remain high**
  - Institutional investors increase their stake in indirect real estate investments
  - Global investors still have low German exposure but is increasing given higher liquidity and transparency
  - Dedicated real estate investors raise their exposure to Germany, replacing opportunistic investors

» **Negative sentiment for financials with a significant impact on real estate**

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## “Simple” yield spread is over, focus is now on value creation on a mid-term perspective

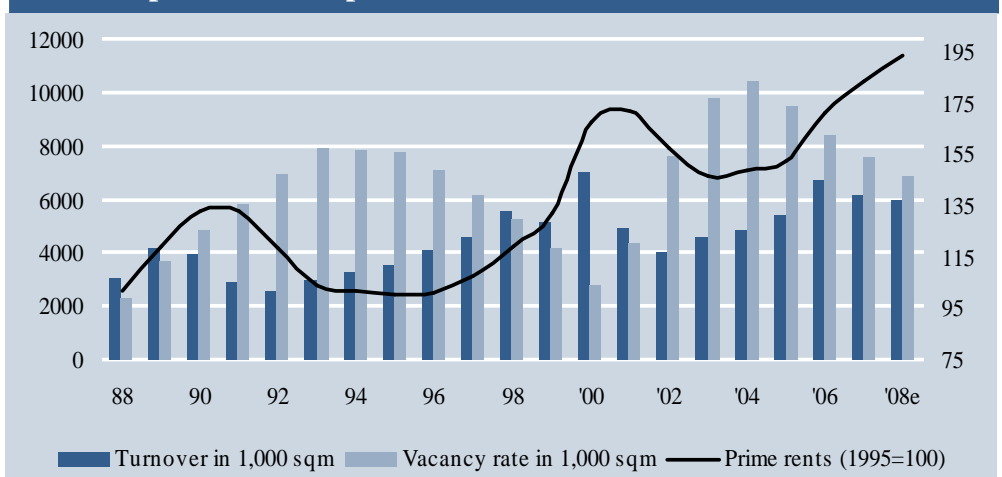
### Interest rate increase lead to lower attractiveness for real estate...



Sources: OIK, Datastream

- Interest rate levels have increased: 3-months EURIBOR by 60 bp since June
- Strong inflow of investment capital minimized the yield spread
- As a consequence investors entered new regions in Eastern Europe that current yield levels in some cases do not reflect the risks adequately

### ...while upturn on European offices continues



Source: OIK

- Prime locations are preferred explicitly
- Currently we see that new lettings by tenants are postponed following the turbulences at the market
- Speculative developments is low

» Higher interest rates as burden for the sector, intensified by current securitization markets

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## Fundamentals (I): German office markets show strength

### Investors' profile has changed on German investment markets

	2005	2006	Q12007
Opportunistic	22%	22%	10%
Value enhanced	48%	40%	20%
Core plus	20%	18%	30%
Core plus	10%	20%	40%

Source: JLL

- Dedicated real estate investors increasing their activities in Germany
- Core / core plus focus on single assets and have in general a much lower leverage of 50-60%
- Some foreign investors have built own teams but demand for asset management very high

### New developments in Germany remain low

	2006	H12006	H12007
Berlin	133,500	31,700	39,800
Dusseldorf	96,100	49,700	5,800
Frankfurt	176,400	119,300	20,000
Hamburg	182,900	30,500	180,400
Munich	60,600	3,400	126,400

Source: OIK

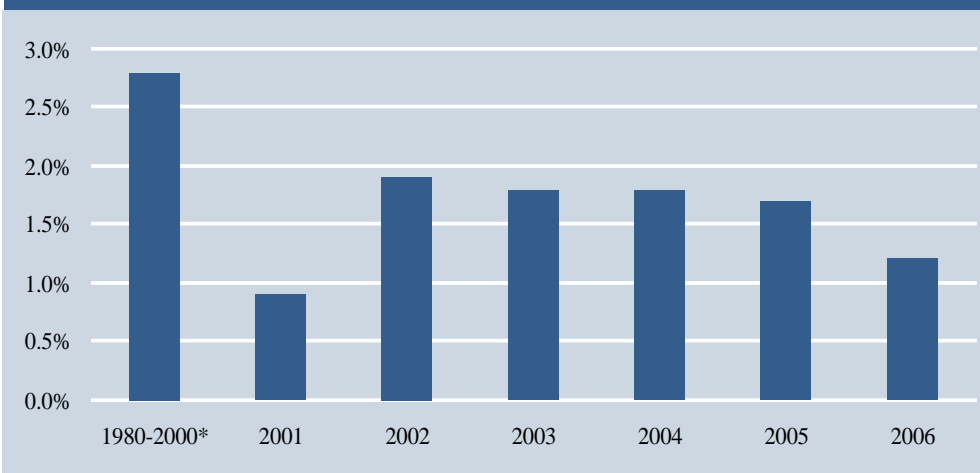
- Munich again the leading location benefiting from diversified tenants
- Hamburg with high development due to "Hafencity"
- Berlin remains difficult despite of positive signs
- Trend is going down except for Munich and Hamburg

» German office markets continue its positive trend

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## Fundamentals (II): Retail markets benefit on stable GDP and decreasing unemployment

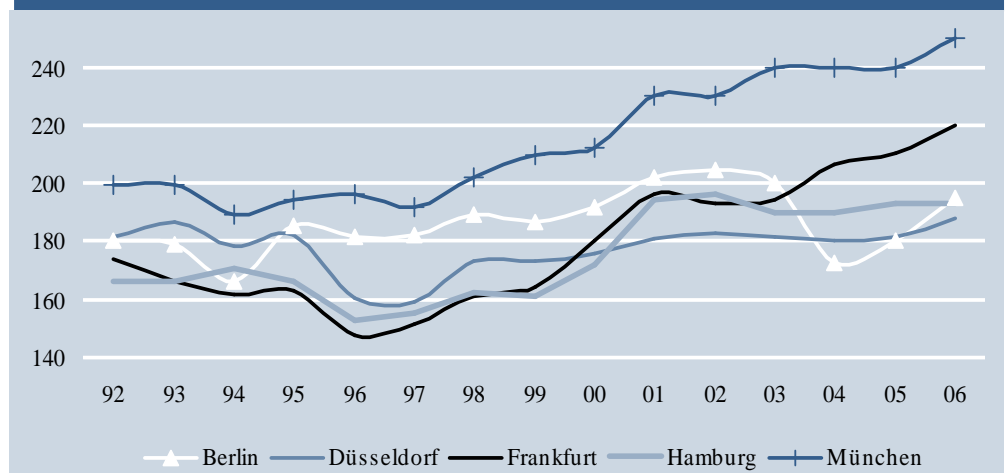
Retail space still growing in Germany but has come down a bit



\* on average p.a.; Source: PWC

- From 1990 – 2006 retail space has increased from 77m sqm to 119m sqm
- Space per capita increased by 40% to 1.4 sqm due to slower growth in German population
- Growth in space despite of poor GDP-development and stagnation in retail sales

Prime rents remain strong



Source: OIK

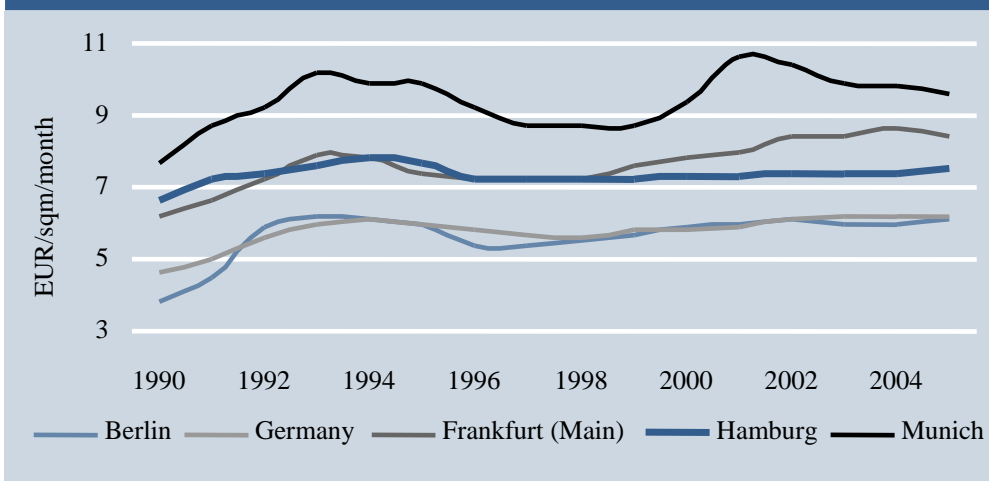
- Ongoing demand for large shops by global retail chains
- Specialty stores replaced by large stores
- Larger cities with higher growth rates than smaller cities
- Inner-city department stores out of fashion

» Valuation on German retail markets high and further yield compression unlikely

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## Fundamentals (III): German residential markets “on the move”

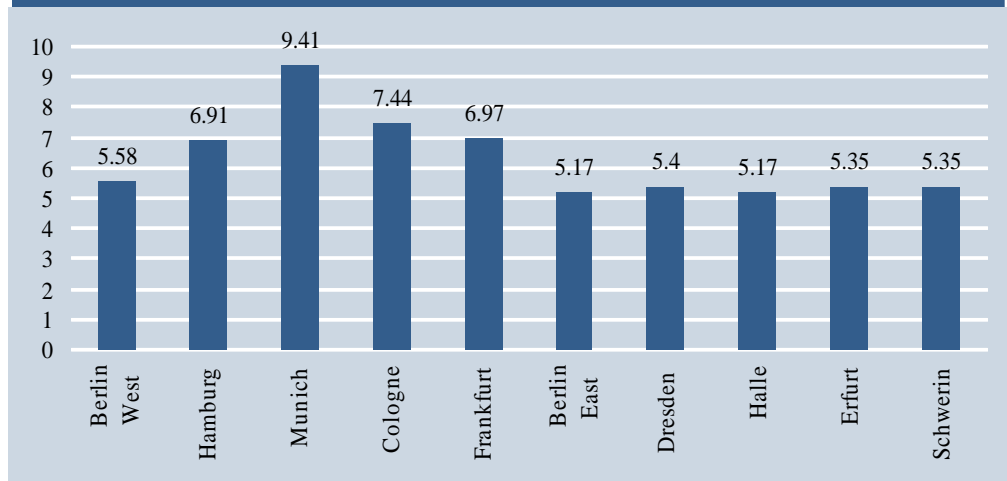
### Very stable development in rents...



Source: TNS Emnid, LBS Research

- Poor performance on German rental markets, by far below other European markets
- Existing rents correlated to local rent index which is a disadvantage for growth but a premium is allowed in case of a higher standard
- Rents can be increased by 20 % within three years, refurbishment costs raise the rents by 11 %

### ...but picking up in selected regions (€/sqm)



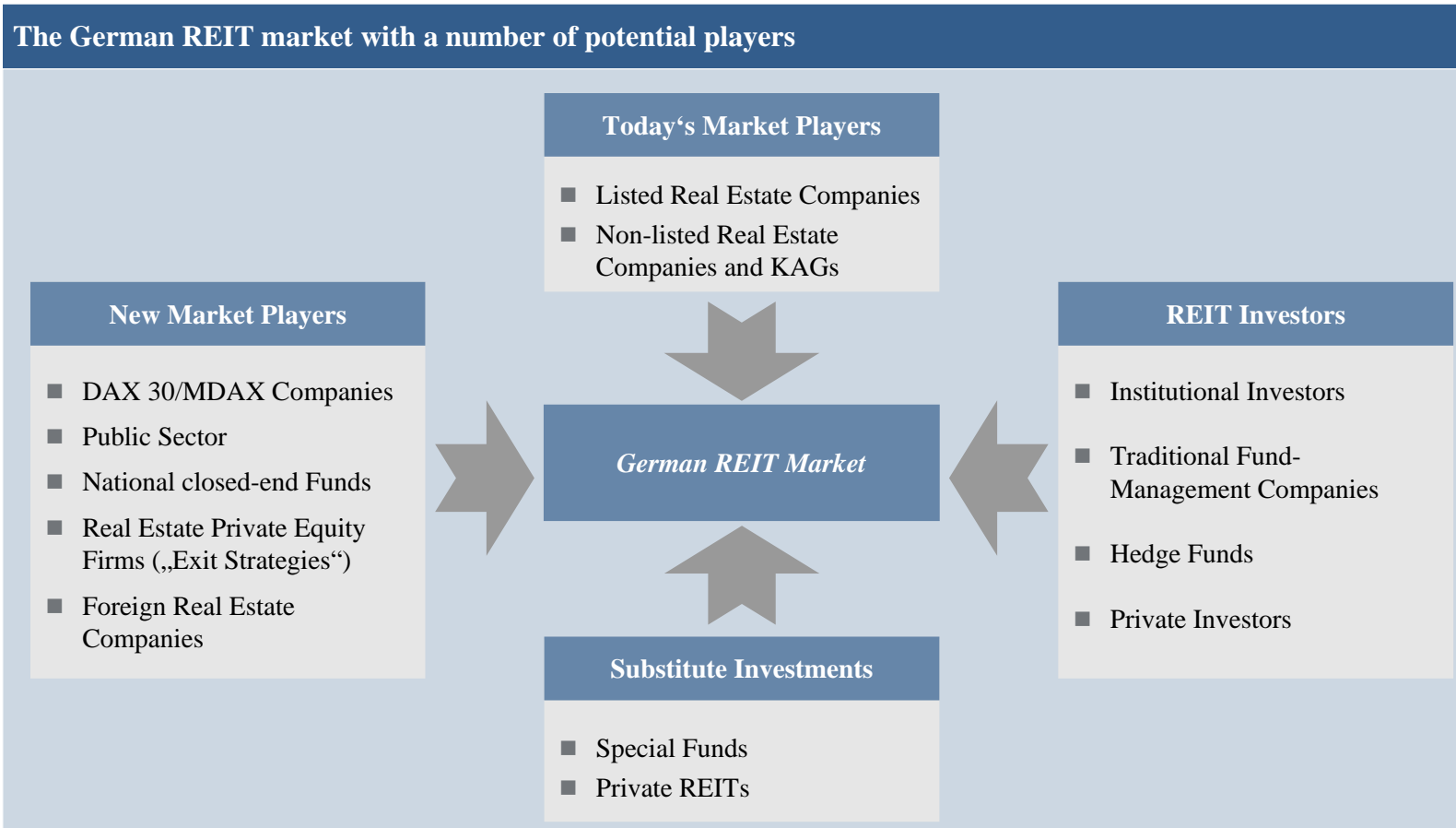
Source: F+B

- In whole of Germany, residential rents increased by 1.6% in 2006
- Average: €5.81/sqm, South: €6.97/sqm, East: €5.17/sqm
- Significant differences: Increase in Bavaria and Baden-Württemberg by 3.6%, Berlin increased by 5.8% over the last two years
- Further growth expected due to increasing number of private owners

» German residential markets are picking up as expected but steadily

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## Not a very warm welcome for the German REIT...



» To be a REIT is not enough for an attractive equity story

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...but there's no doubt about the necessity for German capital markets – let's go for it!

**Some progress made but segment of German property stocks still small**

<b>Countries</b>	<b>2006 GDP (USD Bn)</b>	<b>2006 Commercial Real Estate (USD Bn)</b>	<b>Total Real Estate vs listed real estate (%)</b>	<b>Stock Market Cap (USD Bn)</b>	<b>Stock Market Cap vs listed real estate (%)</b>
USA	12,480	5,616	9.08%	18,522	2.75%
UK	2,224	1,251	9.82%	3,988	3.08%
Taiwan	340	139	3.64%	781	0.65%
Switzerland	369	165	5.60%	1,239	0.75%
Spain	1,121	505	12.63%	1,068	5.96%
Norway	295	133	3.60%	418	1.14%
Netherlands	630	283	12.02%	630	5.41%
Mexico	756	242	0.03%	396	0.02%
Japan	4,497	2,024	9.29%	4,701	4.00%
Italy	1,762	793	1.61%	1,115	1.15%
HongKong	2,420	493	32.18%	5,956	2.66%
<b>Germany</b>	<b>2,787</b>	<b>1,254</b>	<b>1.91%</b>	<b>2,174</b>	<b>1.10%</b>
France	2,121	955	8.41%	2,848	2.82%
Canada	1,135	511	7.85%	1,814	2.21%
Brazil	797	242	0.03%	396	0.00%
Belgium	369	166	4.19%	427	1.63%
Austria	256	115	7.98%	178	0.02%
Australia	690	311	38.66%	1,252	9.59%
<b>Total Europe</b>	<b>15,305</b>	<b>6,848</b>	<b>6.30%</b>	<b>17,715</b>	<b>2.44%</b>
<b>Total Asia-Pacific</b>	<b>10,475</b>	<b>3,723</b>	<b>14.57%</b>	<b>16,478</b>	<b>3.29%</b>
<b>Total Latin America</b>	<b>2,186</b>	<b>632</b>	<b>0.27%</b>	<b>2,468</b>	<b>0.07%</b>
<b>Total North America</b>	<b>13,615</b>	<b>6,127</b>	<b>8.97%</b>	<b>20,336</b>	<b>2.70%</b>
<b>World</b>	<b>41,582</b>	<b>17,329</b>	<b>8.80%</b>	<b>56,994</b>	<b>2.68%</b>

Source: EPRA

» Sector of German real estate stocks significantly below the European average

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## What we like

- Clear focus on sectors or regions required
- Convincing and sustainable track record
- We prefer an integrated business model to cover the value chain
- Broadening and leveraging the business model
- Taking advantage of market opportunities (e.g., REITS, asset management etc.)
- We still like turnover-driven business model when margins remain stable

### Valuation overview of covered stocks

Company	RIC	Rating	Fair Value	Price	Market Cap	PE07e	PE08e	EV/EBITDA07e	EV/EBITDA08e	P/NAV07e	P/NAV08e	DY07e	DY08e
IVG	IVGG.DE	STRONG BUY	41	27.11	3,144.8	12.9	15.2	14.3	18.3	0.92	0.83	1.8	2.8
Deutsche Euroshop	DEQGn.DE	BUY	30	27.16	933.6	18.4	9.3	15.3	11.3	1.03	0.99	7.7	3.9
Deutsche Wohnen	DWNG.DE	BUY	39	31.68	838.1	643.0	32.0	44.0	33.4	0.79	0.76	5.6	5.6
GAGFAH	GFJG.DE	NEUTRAL	20	14.63	3,620.9	4.8	4.9	9.0	9.9	1.18	1.08	4.8	5.3
PATRIZIA Immobilien	P1ZGn.DE	BUY	25	10.6	552.6	16.4	7.1	9.1	6.6	--	--	1.2	1.5
Vivacon	VIVG.DE	BUY	30	18.06	348.0	6.3	5.9	4.8	4.9	--	--	--	--
Colonia Real Estate	KBUG.DE	BUY	39	27.45	603.4	8.5	7.6	13.8	12.0	--	--	--	--
Franconofurt	FFMG.DE	BUY	16.7	9.49	83.5	8.2	6.5	2.8	2.2	--	--	6.3	8.4
Francono Rhein-Main	F7RG.DE	BUY	4.13	2.27	63.6	6.9	5.3	5.5	5.8	0.74	0.60	3.6	4.1
Meinl European Land	MELV.VI	NEUTRAL	15.2	10.4	2,652.0	11.4	8.9	-2.1	0.5	0.64	0.61	--	--
CA Immo Intern.	CAII.VI	BUY	16.2	12.25	532.9	9.2	6.8	9.7	7.6	0.84	0.76	--	--
CA Immobilien Anlagen	CAIV.VI	BUY	20.5	18.5	1,618.8	19.8	19.0	16.6	18.1	0.78	0.72	--	--
AIG International Real Estate	IREG.DE	NEUTRAL	42.8	43	169.2	12.5	10.6	8.8	11.8	0.84	0.80	--	--

Source: Oppenheim Research, Datastream, JCF

» Valuation looks attractive but still (too much) negative sentiment

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## Valuation overview of the main stocks in each sector (I)

European office stocks									
Company	Currency	Price (local)	Market Cap (local)	PE		EV/EBITDA		Div-yield (%)	Premium to NAV 2007e (%)
				2007e	2008e	2007e	2008e		
British Land	GBP	1,170.0	5,992.1	22.4	21.2	21.8	20.8	2.99%	-39.16%
Great Portland Estates	GBP	624.5	1,130.5	53.0	45.8	40.1	38.3	1.86%	-14.33%
Hammerson Property	GBP	1,215.0	3,512.9	32.0	28.7	24.7	24.8	2.23%	-28.36%
Land Securities Group Plc	GBP	1,732.0	8,055.0	23.2	21.6	22.6	21.7	3.74%	-26.20%
Vastned Offices Industrial	EUR	23.5	494.1	13.4	12.7	14.3	14.3	7.35%	-5.44%
Wereldhave	EUR	84.5	1,756.1	17.4	17.0	17.4	16.3	5.44%	-8.85%
Eurocastle Investment Ltd	EUR	25.1	1,595.6	4.5	8.7	20.0	19.7	8.96%	-9.96%
Silic SA	EUR	119.7	2,091.9	50.4	45.7	22.2	20.6	3.36%	-3.92%
Unibail Rodamco	EUR	182.7	14,918.6	23.6	20.6	26.9	19.2	3.83%	4.41%
Cofinimmo SA	EUR	126.7	1,627.4	15.4	14.5	24.3	22.1	5.92%	22.96%
Fabege AB	SEK	80.5	14,364.9	25.3	26.8	23.4	22.5	4.97%	6.62%
PSP Swiss Property AG	CHF	63.4	2,973.6	22.0	26.0	16.8	24.6	3.41%	-7.31%
Beni Stabili SpA	EUR	0.9	1,756.6	31.6	18.7	20.0	18.9	2.65%	-18.08%
CA IM.ANLAGEN	EUR	18.3	1,592.5	16.7	13.5	17.0	10.8	0.00%	-21.57%
CA Immobilien Anlagen AG	EUR	18.3	1,592.5	16.7	13.5	29.3	23.5	0.00%	-23.12%
Ivg Immobilien AG	EUR	27.0	3,132.0	12.9	15.2	14.3	18.3	2.22%	-7.76%
DIC Asset AG	EUR	25.0	711.1	17.8	14.4	21.9	17.1	5.21%	1.84%
Alstria Office AG	EUR	13.0	729.7	13.7	21.0	27.3	20.0	4.03%	-16.48%

Source: Oppenheim Research, Datastream, JCF

» **Fundamental play: UK stocks suffer from peak situation in London, positive for Scandinavia and Italy**

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## Valuation overview of the main stocks in each sector (II)

European retail stocks									
Company	Currency (local)	Price (local)	Market Cap (local)	PE		EV/EBITDA		Div-yield (%)	Premium to NAV 2007e (%)
				2007e	2008e	2007e	2008e		
Unibail Rodamco	EUR	182.7	14,918.6	23.6	20.6	26.9	19.2	3.83%	4.41%
Corio Nv	EUR	60.8	4,086.9	20.3	19.1	22.6	20.8	4.28%	16.15%
Vastned Retail	EUR	56.1	948.8	14.6	14.0	16.2	15.0	6.65%	-11.27%
Eurocommercial Properties	EUR	40.5	1,425.0	23.0	21.3	24.1	22.5	4.32%	11.76%
Klepierre	EUR	40.9	5,660.2	32.1	28.4	18.8	17.7	2.92%	-27.17%
Liberty Intl Plc	GBP	1,180.0	4,272.5	29.7	26.7	22.8	23.3	3.14%	-18.56%
Dawnay Day Treveria Plc	EUR	1.0	655.5	18.9	14.0	23.1		4.61%	n.a.
Citycon Oyj	EUR	4.5	873.1	8.0	22.0	16.4	17.8	2.98%	1.57%
Meinl European Land Ltd.	EUR	10.1	3,036.0	11.4	8.9	2.4	5.1	0.00%	-37.44%
Deutsche Euroshop AG	EUR	27.1	931.9	18.4	9.3	15.3	11.3	3.88%	2.93%

Source: Oppenheim Research, Datastream, JCF,

European residential stocks										
Company	Country	Currency (local)	Price (local)	Market Cap (local)	PE		EV/EBITDA		Div-yield (%)	Premium to NAV 2007e (%)
					2007e	2008e	2007e	2008e		
Deutsche Wohnen AG	Germany	EUR	31.6	607.5	91.1	27.8	42.4	23.3	5.56%	-20.93%
Vivacon AG	Germany	EUR	18.1	353.2	6.4	5.9	6.6	6.2	2.76%	n.a.
Patrizia Immobilien AG	Germany	EUR	10.8	563.0	13.3	9.4	12.7	8.9	1.85%	n.a.
Colonia Real Estate Ag	Germany	EUR	28.4	624.4	8.1	8.4	10.4	11.0	0.00%	n.a.
Franconofurt AG	Germany	EUR	9.3	81.4	8.2	6.5	10.8	9.2	8.65%	n.a.
Gagfah SA	Germany	EUR	14.6	3,301.5	12.8	13.5	21.2	17.5	5.43%	5.32%
Francono Rhein Main AG	Germany	EUR	2.3	63.6	6.9	5.3	10.0	9.6	9.38%	n.a.
Conwert Immobilien	Austria	EUR	13.1	1,119.1	21.5	15.5	30.3	22.4	0.00%	-13.75%

Source: Oppenheim Research, Datastream, JCF

» **Skeptical on further growth for retail stocks, high skepticism for German residential stocks despite of attractive markets**

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## FAQ's by investors and current trends

- Increasing importance of dedicated real investors (again)
- Financing structure
- Stake of recurrent and stable income stream
- Increasing importance for dividend payments from a standing portfolio
- Domestic and established companies preferred
- “Size matters”
- Management of high credibility
- Waiting fro M&A-activities
- Increasing stake of global investments

» **It is not all about growth – sustainable business model matters**

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## Key points for listed stocks

Success factor		Comment
Track record	▶	<ul style="list-style-type: none"><li>■ No blind pool or start-up</li><li>■ Visible pipeline for future growth</li></ul>
Focus / USP	▶	<ul style="list-style-type: none"><li>■ Focus on regions and / or sectors → “local sharp shooter”</li><li>■ No “me-too”-equity story, define earnings drivers</li></ul>
Reporting / Transparency	▶	<ul style="list-style-type: none"><li>■ EPRA standards as benchmark for accounting</li><li>■ Prepare full set of key financials as FFO, NAV etc</li></ul>
Guidance	▶	<ul style="list-style-type: none"><li>■ No guidance leads to uncertainty → sell</li><li>■ Reflects sustainability of business model</li></ul>
Selective cash calls	▶	<ul style="list-style-type: none"><li>■ Efficient use of new cash</li><li>■ Use of convertibles, hybrid etc appreciated</li></ul>

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